

PURPOSE

The Michigan Department of Health and Human Services (MDHHS) reviews at reasonable, specific, time-limited periods the amount of payments made for foster care to child caring institutions (CCIs) and child placing agencies (CPAs) to ensure their continued appropriateness and compliance with the Social Security Law [42 U.S.C. 671] Section 471(a)(11) [implementation requirements at 45 CFR 1356.20(m)(1)].

Note: This policy does not address payments for foster and relative care providers, which is described in [FOM 903-03, Payment for Foster Family/Relative Care](#). Also, this policy does not address payments for adoption assistance, which is described in [AAM 210, Adoption Assistance Rate Determination](#).

DEFINITIONS

Bureau of Audit (BA)

A bureau within MDHHS, Financial Operations Administration, that provides audit and support services.

Child Caring Institutions (CCI)

Agencies contracted with and funded by MDHHS to provide supervision and services appropriate to the youth's needs in a structured residential care program.

Child Placing Agencies (CPA)

Agencies contracted with and funded by MDHHS to provide foster care services including placement of youth, recruitment and retention of foster homes, and all required services to children and families.

Children's Services Agency (CSA)

An agency within MDHHS that oversees services to children and families involved with Michigan's child welfare system.

PERIODIC RATE SETTING

MDHHS will periodically calculate statewide cost based per diem payment rates by the various contract types for CCIs and CPAs that contract with MDHHS to provide child welfare services. MDHHS will consider the following when recalculating rates:

- Cost reports and service data submitted by contracted providers.
- Cost trends identified during annual rate monitoring.
- Other changes in operating costs, such as caseload or staffing ratio limits and inflation.

The calculation and requests for budgetary and legislative approvals will occur every three years at a minimum.

Rate Monitoring

Annually, MDHHS will compare current payment rates to rates calculated based on cost report data using the Rate Monitoring Tool (RMT) to determine the continuing appropriateness of rates paid to providers. MDHHS will adjust cost reports for inflation. If rates paid deviate significantly from rates calculated based on provider costs, MDHHS may seek budgetary and legislative approval to adjust the rates.

Cost Report Reviews

MDHHS will review the cost report data that is used to calculate statewide cost based per diem payment rates and used in the RMT. When cost reports and service data are received and entered into the RMT, the data is reviewed for outliers and follow up is made with the CCIs and CPAs. Any misreporting identified in the review is corrected in the RMT, and the corrected information is used in the rate setting process.

PROCEDURES**Collect Annual
Cost Reports*****Timeframe***

October of each year.

Department

CSA

Tasks

Provides list of CCI and CPA contractors from previous fiscal year to BA. List will include the following detail to allow tracking receipt of cost reports, including juvenile justice information:

- Agency name.
- Legal name.
- License numbers.
- Contract numbers.

Timeframe

November - January of each year.

Department

BA

Tasks

1. Retrieves emailed cost reports from dedicated email address.
2. Verifies receipt and contents of cost report from contractors, including contracts, federal ID numbers, agency report information, and authorized signature/attestation.
3. Saves electronic cost reports to shared drive.
4. Logs receipt of cost reports on tracking log.
5. Follows up on delinquent cost reports to ensure receipt.
6. Extends due dates of cost reports for valid reasons and informs CSA of any extension.
7. Initiates contractually allowed penalty provisions for late cost reports. BA will submit a referral to CSA, and CSA will inform the provider of the penalty and ensure collection of the penalty.

**Review Reports
and Data*****Timeframe***

December - February of each year.

Department

BA

Tasks

1. Reviews cost reports and service data to identify potential errors or outliers. The following are examples of items review for:
 - License.
 - Contracts.
 - Completed revenue and expense data.
 - Expenses reported by service/contract.
 - Direct costs.
 - Indirect costs.
 - Unallowable costs.
 - Statistical information, such as days in care, or number of children served.
 - Miscellaneous costs, including description and MDHHS approval.
 - Full time equivalents.
 - Salary information.
 - Supplemental schedule of expenditures.
2. Requests additional information, including corrected cost reports, from agencies when errors or outliers are identified.
3. Follows up to ensure corrected cost report is received.

Calculate Rates***Timeframe***

By May 31 of each year.

Department

BA, with contractor assistance as needed.

Tasks

1. Place cost report and service data into the RMT and import into one master worksheet for both CCI and CPA service types.
2. Using the RMT calculate rates from the cost reports using the same model budget structures used to calculate the current payment rates.
3. Incorporate an inflation factor into the rate calculation based on previous year cost report data to adjust for inflation since the prior year's rate calculation.
4. Compare the cost reports and calculated rates to the costs assumed in the current payment rates such as staffing levels, salary levels, other costs.
5. Adjust cost report data where necessary to make accurate comparisons, such as when certain assumptions built into the current payment rate have not yet been implemented.
6. Provide CSA with a summary comparison schedule of payment rates to calculated rates based on cost reports.

Rate Monitoring***Timeframe***

By June 30 of each year.

Department

CSA

Tasks

1. Annually, compare current payment rates to rates calculated based on cost report data using the RMT to assess the continuing appropriateness of rates paid to providers using the summary comparison schedule provided by BA.
2. If payment rates deviate significantly from rates calculated based on provider costs, CSA will explore reasons for the

**Periodic Rate
Setting**

variation and may initiate budgetary and legislative approval via recommendations to MDHHS's executive office to adjust the rates. Further review will typically occur when a deviation of 10 percent or greater exists between current and calculated rates to identify the reasons for the deviation.

3. Based upon the results of the review, CSA may work with providers to ensure program expectations are incorporated or recommend a change in rate with budgetary and legislative approval. If no action is taken, justification will be documented.

Timeframe

Every 3 years, month of June and completed by June 30.

Department

CSA

Tasks

1. Initiate a formal rate setting process that includes a determination of statewide cost-based per diem payment rates by the various contract types for CCIs and CPAs that contract with MDHHS to provide foster care maintenance based on cost reports and service data submitted by providers and reviewed by BA. The rate setting process will include the following considerations:
 - The cost reports from the fiscal year that ended 2 years prior will generally be used.
 - Cost trends identified with the summary comparison schedule of payment rates and cost reports.
 - Adjustments will be incorporated into the rate setting for inflation or other projected costs that have changed significantly between the cost report date to the anticipated implementation date.
2. Initiate budgetary and legislative approvals for proposed rate changes via recommendations to MDHHS's executive office, if necessary.
3. Implement approved rate changes.

Policy Contact

Questions about this policy may be directed to the [Child Welfare Policy](#) mailbox (Child-Welfare-Policy@michigan.gov).